Annual Development Banking Conference

CDFI Bank 2.0: Innovation for Impact

November 12-14, 2013

A summary of the innovative ideas and collaborative discussion generated at the Annual Development Banking Conference.

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CDFI Bank 2.0: Innovation for Impact

PREFACE

We are pleased to provide a summary of the deliberations held at the 2013 Annual Development Banking Conference. As you know, NCIF hosts the event with the following objectives:

1. To support, strengthen, and help scale the mission-oriented banking industry, and to discuss ways to better serve the underserved and contribute to the development of a more just society.
2. To solicit support from investors, legislators, and regulators for the significant work achieved by mission-oriented banks.
3. To showcase and celebrate the social impact and, increasingly, the environmental impact generated by these institutions.

The themes of the conference reflect the current thinking from industry leaders on the above. To deepen the discussion, NCIF offered two roundtable discussions on New Markets Tax Credits and Social Performance Metrics, with actionable strategies for the future.

We are deeply honored by the participation and guidance from our keynote speakers: Charles Evans, President and CEO of the Federal Reserve Bank of Chicago; Thomas Curry, Comptroller, Office of Comptroller of the Currency; Eugene Ludwig, Founder and CEO of Promontory Financial Group; and Donna Gambrell, Director of the CDFI Fund.

We want to thank all the participants who attend this annual conference, representing mission-oriented banks, investors, government agencies, and other industry stakeholders. Their participation multiplies the positive impacts of the conference. Finally, my thanks to our staff and board for their tireless efforts to make these events possible. We look forward to seeing you again at the next Annual Development Banking Conference, on November 12-14, 2014.

All the best,

Saurabh Narain
Chief Executive, National Community Investment Fund

Challenges and Hopes for the US Economy

Charles Evans
President and CEO, Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago is pleased to host the Annual Development Banking Conference for the eighth straight year, reflecting our long-standing relationship with NCIF. This annual event is a key resource for CDFI Banks that use their local knowledge for critical services like repurposing foreclosed property, aiding in natural disaster recovery efforts, and serving borrowers who cannot access mainstream credit. The challenge these institutions face is in balancing financial health and capital concerns with mission goals and social impact.

The US economy has struggled to generate sufficient growth to sustain a strong recovery, due to a combination of the following issues.

First, fiscal restraint has been a massive drag on the economy since 2011. Sequestration, reduced government spending, and higher tax rates have had a significant negative effect on GDP growth. Fiscal issues in the international economy have also been a problem.

Second, monetary policy has had limited ability to offset these headwinds. The "zero lower bound" interest rate policy is a constraint that forces the Federal Reserve to use other tools to stimulate the economy. The Federal Reserve has proposed to keep interest rates low until reaching either 6.5% unemployment or 2.5% inflation, and perhaps longer if appropriate.[1]

Inflation has been low throughout this time period, which can provide a disincentive to borrowing and slow down the economy. Although consumers may feel they have experienced price increases, financial markets show that investors are expecting under 2% inflation. Inflation is considered low today in the US and around the world.

Finally, the unprecedented size of the Federal Reserve's balance sheet worries some, as the institution purchases assets to stimulate the economy. The economic risks of this strategy must be managed and studied, and the Fed has ample safeguards regarding unconventional tools. At the moment, that risk seems low and the Fed will continue its strategy to spur economic growth.

Ultimately, the economy will recover when more customers show up in stores to generate demand for products and services, which will in turn cause businesses to expand and create jobs. Incomes will grow, leading to more consumption, and the process will form an upward spiral. There is still a long way to go, but 2014 may be the year that we see the beginning of concrete growth.

[1]Editorial note from Saurabh Narain: The above position of President Charles Evans has come to be known as the Evans Rule.

Remarks from the Comptroller of the Currency

Mr. Curry made a keynote address at the conference. The following are excerpts from his remarks:

Thomas Curry
Comptroller, US Office of the Comptroller of the Currency

"As bank managers that influence the direction of the CDFI industry, you deserve enormous credit for your success in serving low- and moderate-income communities, identifying urgent financial needs, delivering unique financial services to underserved consumers, and revitalizing economically distressed communities. This is difficult work that requires both ingenuity and dedication. The theme of this annual conference—"CDFI Bank 2.0: Innovations in Impact"—is particularly apt."

"Galileo once said, 'Measure what is measurable, and make measurable what is not so.' That quote sums up the groundbreaking work that NCIF has done in developing its Social Performance Metrics. Using concrete metrics, these reports quantify the impact that an institution's banking services and mortgage lending deliver in low- and moderate-income areas. …. As CDFI managers, these types of social impact metrics can arm you with compelling evidence to market your effectiveness to current and prospective investors. This information is also valuable for your own strategic business analysis. You can use these analyses to identify new markets to penetrate and benchmark your own work against that of your peers. Reading NCIF's most recent quarterly report on CDFI financial and social performance, it also struck me how valuable this standardized information is for making the industry's case to policy makers. I applaud NCIF for its leadership in developing these tools and making them widely available."

> *"CDFIs have a measurable impact on consumers and communities. As Comptroller, I pledge the OCC's continuing commitment to making that impact grow."*
> –Thomas Curry

"Although compliance with new capital and mortgage regulations may present challenges, in many instances Congress and the regulatory agencies recognized the unique nature of community-focused institutions and took steps to preserve affordable credit opportunities and promote community and economic development. … An exemption from the ability-to-repay regulation is available to CDFIs—whether they are supervised or non-supervised—as well as other specified types of lenders. … Regulators have also recognized the different characteristics of community development finance by providing more favorable capital treatment under Basel III for investments in CDFI Banks. …. Other provisions in Basel III provide special capital treatment for certain community development activities. … Regulatory provisions like the ones I've just mentioned recognize the special character of your industry. Our goal is to encourage more innovation in community and economic development lending and investment."

"Many of the best prospects for extending the reach of your organizations' work depend on the partnerships you forge with financial institutions, philanthropic organizations, and local, state, or federal government agencies. Consistent with your creative approaches to getting things accomplished, you may want to explore ways to boost your reach and effectiveness by seeking out new partners, so that you can forge pathways into markets that are not being adequately served. … By building on their synergies, each institution brings something of value to share with the other partner: perhaps a tax credit allocation, a client with an economic development plan, an equity infusion, or greater technical expertise regarding complex transactions."

"In closing, I want to recognize once again the important work done by CDFIs. Cooperative engagement and active partnerships will strengthen your institutions and expand the resources available to help your institutions continue to serve low- and moderate-income individuals and communities. You play a vital role in strengthening the financial and economic underpinning of these communities. Whether you are developing affordable rental housing, financing community facilities, or offering innovative savings and credit products, CDFIs have a measurable impact on consumers and communities. As Comptroller, I pledge the OCC's continuing commitment to making that impact grow."

The Critical Role of Mission-Oriented Banks

Eugene Ludwig
Founder and CEO,
Promontory Financial Group

The community development banking industry includes many of the real heroes of America, motivated not by dollars but by the well-being of people in communities. Many of these heroes are sitting in this audience. This mission is the driver behind the power and practicality of CDFIs and Minority Banks. The leaders of this industry have proven that finance, when practiced safely and fairly, can be a powerful tool to eliminate poverty and improve lives.

CDFIs were groundbreaking leaders in the movement for social business, proving the concept that a for-profit business could exist to fulfill a social goal. However, these institutions were not founded on theory alone, but rather grew out of practical responses to real-world needs like urban flight and the exclusion of minorities.

There continues to be great need in America today. Poverty and unemployment are at record-high levels. In response to the shaky economic and fiscal situation, the country has reduced investments in infrastructure, education, and social safety nets, further compounding the problems faced by low-income communities. Americans are ever more vulnerable to the risk of financial ruin.

CDFIs and mission-oriented banks play a critical role in the national economy by creating a bridge between investors and needy communities. Community banks are uniquely poised to lead financial innovation: with their connection to communities, they serve as laboratories for the next big ideas. CDFIs are inventing creative combinations of public and private initiatives, and of financial and social goals. Examples include financial education classes in public schools and socially-responsible deposit funds that turn everyday Americans into impact investors. Banks are also experimenting with mobile branching and other forms of new technology, making small banks more efficient and drastically increasing outreach potential. Mainstream national banks realize that traditional finance leaves out many customers, and they are following the leadership of CDFIs in finding solutions.

> *"Community banks serve as laboratories for the next big ideas in financial innovation."*
> –Eugene Ludwig

It is critical that the public sector and regulatory agencies take steps to ensure the stability of these important institutions. In addition, banks themselves need to evolve their business models. First of all, banks must measure their impact to provide qualitative and quantitative examples of success. I strongly support the work being done by NCIF to create standards for social performance measurement, which I believe will result in a greater flow of capital from mainstream and socially responsible investors. Second, banks must maintain open lines of communication with government representatives and other allies of community development. Finally, we as an industry must raise awareness of the amazing success story of CDFI Banks in post-crisis distressed communities. Communicating the importance of these institutions is a critical step to advancing their impact goals. I welcome ideas and comments from CDFIs and mission-oriented banks and will commit to dedicating resources to supporting and advancing the industry.

Resources and Support from the CDFI Fund

Donna Gambrell
Director, CDFI Fund

I would like to thank NCIF for its efforts to bring the CDFI Banking industry together at this very important annual event. In addition to the conference, NCIF also develops Social Performance Metrics to quantify the outputs and impacts of mission-oriented financial institutions. We at the CDFI Fund support this effort to tell the story of the industry's accomplishments.

For the CDFI Fund, 2013 might well be called "the year that people said it couldn't be done." The CDFI Fund had an ambitious vision and was able to make exciting advances in a number of key areas.

The CDFI Bond Guarantee Program, while complex, represents a tremendous opportunity for CDFIs by guaranteeing bonds to support CDFI lending and investment. After many months of development and structuring, the CDFI Fund approved $325 million in bonds to four eligible CDFIs during the fiscal year 2013 inaugural round. The CDFI Fund hopes to bring this exciting program to more CDFIs in 2014.

During the last year, The CDFI Fund undertook a recertification of over 700 CDFIs certified before 2010. While this process was not statutorily required, it will allow the CDFI Fund to ensure the highest standards of mission performance in all certified institutions. Some institutions declined to reapply for certification, because their business models have changed over the years and they no longer feel they met the criteria. Rather than feel disappointed, the CDFI Fund is proud to say that all 808 currently certified CDFIs are truly serving their communities. A proposed annual check-up process will be an ongoing way to monitor and evaluate CDFIs.

The CDFI Fund continues to provide resources through its Capacity Building Initiative. These training workshops on technical assistance, small business strategy, microfinance approaches, and other practical issues are developed to increase CDFIs' ability to deliver financial products and services to underserved communities. A new series in 2014 will focus on preserving and expanding CDFI Minority Depository Institutions (MDIs). In light of current regulatory challenges, the CDFI Fund will offer additional compliance assistance, providing risk rating tools and financial analysis to support CDFIs in complying with requirements.

> *"If we work together and believe in our common mission, we can be a great source of good in our communities."*
> –Donna Gambrell

A new research group at the CDFI Fund will focus on measuring and evaluating the impact of CDFI Fund programs. The group hopes to understand how CDFIs and underserved communities benefit from these programs, how they can be improved, and how the story can better be told.

The CDFI Fund's award programs continue to be a strong support for the CDFI Banking industry. In the last round of Financial Assistance Awards, 11 depository institutions received a total of $12M to support their work. The CDFI Fund has adjusted its internal policies to attain a greater success rate for CDFI Banks. The 2014 application has been redesigned to be more user-friendly, more data-based, and more streamlined. The Bank Enterprise Award Program received the largest number of applicants since 2002. As interest in this program increases, the CDFI Fund has given smaller awards to each of the winners so that the funds touch more banks. The CDFI Fund is open to feedback on this strategy. For example, would it be better to give a larger award to a smaller number of banks? The answer depends in part on how banks are using BEA to make a difference in communities.

The New Markets Tax Credit Program continues to be a highly competitive program. The CDFI Fund has heard feedback from MDIs concerned about their inability to gain traction in this program, and is currently working on next steps to make the program beneficial to those applicants.

The devastating recession hit our communities in ways that are difficult to describe and even more difficult to redress. The CDFI industry has managed to recuperate fairly well, but there is much work to be done for the recovery of the country's most distressed areas. If we work together and believe in our common mission, we can be a great source of good in our communities.

CDFI Bank 2.0: Innovation for Impact

Saurabh Narain
Chief Executive,
National Community Investment Fund

Mission-oriented financial institutions play a critical role in creating opportunities among the underserved in the US, acting as catalysts in markets that would otherwise not have the benefits of responsibly priced financial products and services. This role is consistent with the ideas propounded by Nobel laureate Amartya Sen around the power of economic opportunity and other freedoms.

Mission-oriented banks are deeply rooted in their communities, allowing them to understand specific needs and offer targeted innovations. These institutions demonstrate their mission focus by locating 88.9% of their branches in low- and moderate-income areas. As a quantitative measure of mission-related activity, since 1998 NCIF's portfolio banks have generated over $6 billion of lending in low- and moderate-income communities. These banks have actually increased lending during the recession. Despite these achievements, the mission-oriented banking industry remains small in a commercial sense. With 51 million underbanked adults in the US, there is room – and need – for substantial growth.

The financial crisis was devastating to low-income communities, and the banks focusing their business in those vulnerable areas were hit hard as a result. Mission-oriented banks face headwinds caused by the unintended consequences of heightened regulations and also the potential disintermediation caused by technology. Congress, regulators, and socially responsible investors need to act to stabilize, strengthen, and facilitate the growth of these institutions.

Even with the support of external stakeholders, the industry itself needs to take control of the following five things, as it looks to CDFI Bank 2.0:

1. **Evolve the business model:** The industry needs to diversify revenue and funding sources, build partnerships, and use technology to be on the cutting edge of innovation. Banks should embrace opportunities to collaborate by sharing functions, adopting a franchise model of operation, or consolidating.
2. **Increase scale:** Growth, achieved organically or through acquisitions, can allow greater customer outreach and reduced operational costs.
3. **Raise capital:** Banks need new capital to replace TARP/CDCI preferred stock and support long term growth. This capital can only be raised by developing an investment value proposition focused on impact, dividends, and capital liquidity.
4. **Raise the bar in catalyzing and measuring social and financial returns:** It is important to maintain laser-like focus on creating social returns and then "telling the story" in a compelling manner.
5. **Recruit and retain quality human capital and governance.**

During 2014, NCIF will focus on strengthening a mutually reinforcing NCIF Network of Banks, uniting institutions that commit to working individually and collectively to solve some of the issues facing the industry. NCIF will continue to invest capital, facilitate the flow of core deposits, develop a small business lending fund, and help strengthen the sector with Social Performance Metrics and best practices. In addition, NCIF will evaluate new technology partners for possible collaboration and investments to support the industry. Process and product innovation will be hallmark of successful and scaled CDFI Bank 2.0. These strategies will allow mission-oriented banks to fulfill their role in Professor Sen's vision of attaining economic development through freedoms that empower underserved communities.

> *"[There is] need for an integrated analysis of… the roles and interconnections between certain crucial instrumental freedoms, including economic opportunities, political freedoms, social facilities, transparency guarantees, and protective security."*
>
> *"Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over-activity of repressive states."*
>
> –Professor Amartya Sen
> *1998 Winner of the Nobel Prize in Economics*
> *From* **Development as Freedom,** *1999*

THE CEO PANEL: Key Strategies for Success

Al Lau
Founder and Retired CEO,
First American International Bank, NY
NCIF Trustee, Moderator

Kim Saunders
President and CEO,
Mechanics and Farmers Bank, NC

Guillermo Diaz-Rousselot
President COO,
Continental National Bank of Miami

William S. Keller
President and CEO,
Community Bank of the Bay, CA

Executives from four diverse CDFI Banks answered questions about successful strategies they've employed to tackle challenges facing their institutions.

Mission, far from being a burden, is often a bank's greatest asset. The leaders on this panel attribute the success of their banks to the power of their connection with the community. In some cases, larger banks retreated from vulnerable communities during the recession, allowing mission-oriented banks that stayed in those areas to service a greater portion of the market. In other cases, mission-oriented banks differentiate themselves from mainstream banks by building a reputation for personal attention and dedication. By positioning themselves as dependable community partners, banks generate customer loyalty that can sustain new lines of business. Mission can also play a part in attracting highly qualified, dedicated human capital, a critical element to achieving growth. The panelists advised fellow executives that staying true to mission in good times and bad can help a bank focus efforts and leverage powerful community roots.

CDFI Banks should seize the moment to raise capital in light of recent regulatory changes. Here, too, mission can be an asset: mission-oriented banks have a very successful and compelling track record they can use to take advantage of funding opportunities. Banks can tell the story of their mission to capitalize on the growing popularity of crowdfunding, going local, and impact investing. It's important to gather impact data and differentiate the industry in order to attract support and investment. Now may be an advantageous moment for capital-raising: as there are fewer community banks post-crisis, there will be less competition for resources.

> *"Mission is critical because it drives you to develop strategies that can save you during bad times."*
> –Al Lau

Panelists shared successful strategies in meeting specific challenges. For example, one bank improved operating efficiency by hiring a consultant to help make its lending team cross-functional and more consistent. In order to manage asset quality issues during the recession, another institution divided its lending team into an origination team and a special assets team that identified vulnerable borrowers and then proactively worked with them to prevent further deterioration.

Looking forward, the panelists were ambitious in their goals for their own institutions, and hopeful for the future of the mission-oriented banking industry. CDFI Bank 2.0 means creating innovative partnerships and products. These successful banks are taking advantage of opportunities through the SBA and other government programs, and through third party vendors to provide financing to the whole spectrum of borrowers in their local communities and in diversified markets. The panelists spoke about the visible impacts they have witnessed as their banks change the landscape of the neighborhoods they touch. The next step is to strive for scale, deepening banks' involvement in the communities currently serve and spreading to new areas that can use financial opportunities.

New Strides in Capturing and Communicating Social Impact

Joe Schmidt
Vice President, Research and Investments, NCIF, Moderator

Emily Sipfle
Senior Analyst, Research and Investments, NCIF

Preston Pinkett, III
President and CEO, City National Bank of New Jersey

Salvador Menjivar
Executive Director, One PacificCoast Foundation

The mission-oriented financial industry may be influenced in many ways by its ability to measure and communicate the tremendous impact banks have in underserved communities. NCIF pioneered impact measurement in order to enable CDFI Banks to track and improve their progress in fulfilling their mission goals. These Social Performance Metrics also help in attracting depositors and investors. The metrics allow stakeholders to inform their decisions with a combination of quantitative and qualitative information, and public as well as self-reported data from participating institutions. This panel encouraged banks to collaborate in shaping metrics and telling the story of the industry.

Measuring a bank's impact is difficult, because the long-term effects of financial services are hard to capture. One PacificCoast Foundation has prioritized the collection of secondary impacts of loans to small businesses that use capital to create jobs, protect the environment, and provide valuable services to neighbors. However, the more details an institution wants to capture, the greater the burden of collecting that information. Mr. Menjivar described the difficulties banks face in collecting redundant datapoints to satisfy different organizations. The current challenge is to streamline reporting and standardize definitions, so banks can be more efficient in gathering just the right data.

> *It's important to have a standard to identify players who are on the frontier of high performance.*
> –Preston Pinkett, III

Industry leaders and NCIF continue to discuss the right form for these metrics to take. Mr. Pinkett advocates standardizing measures and implementing a ranking system based on the social impact of banks. A system like this would present a simple message to new investors, consistent with the language of the overall investment community. It would differentiate CDFI Banks with the strongest dedication to mission and hold all industry members up to a high standard of social performance. However, the disadvantage of ranking is that it compares CDFI Banks to each other, drawing winners and losers among the industry, as opposed to comparing mission-oriented to non-mission-oriented banks.

> *"Each institution is unique and different. Some specialize in making loans in low-income communities, some in affordable housing, others in clean energy. The means are different but, at the end of the day, the focus is on doing good in our communities.*
> –Salvador Menjivar

Alternatively, impact can be shown using inclusive, subjective datapoints and narratives that highlight the uniqueness of every institution. Each bank has a different business focus, niche community, and financial situation to contend with. Qualitative measures allow investors to compare one mission-oriented bank to another and learn about the unique focus of each one without declaring one bank better than the other. At the same time, these details do draw a striking comparison with the non-mission-oriented banking industry.

Despite the challenges, impact reporting is critically important. CDFI Banks use social performance data when applying for competitive programs like New Markets Tax Credits, Financial Assistance Awards, and Bank Enterprise Awards. Mr. Pinkett cited the budding field of impact investing and urged banks to present compelling and standardized metrics to attract those kinds of funds.

Beyond garnering outside support, metrics can also be an important tool in strengthening the industry from within. Banks that effectively measure their desired community outcomes can evaluate programs to maximize their impact in communities. In these ways and others, the evolution of impact metrics may influence the capital sources, strategic direction, and future of the mission-oriented banking community.

Small Business: Products, Programs, and Partnerships

Vickie Battle
Vice President, Investments and Lending, NCIF, Moderator

Alan Roth
Partner and specialist in SBICs, Edwards Wildman

Ignacio Urrabazo
President and CEO, Commerce Bank, TX

David Rader
Executive Vice President, Wells Fargo SBA Lending Group

Grady Hedgespeth
Director of Financial Assistance, US Small Business Administration (via videoconference)

Supporting the needs of small business borrowers should be a top priority for banks dedicated to reviving low-income communities that are struggling to emerge from the recent economic slowdown. At the same time, small business lending has become an essential source of revenue for many mission-oriented banks. This panel discussed ways that banks can increase their lending by utilizing different lending products and strategies.

Products and resources from the Small Business Administration (SBA) may offer the solutions banks need to say "yes" to more budding businesses. SBA loans can enable banks to offer credit products with lower down payments, better amortization, lower prepayment penalties, and more favorable rate structures than traditional loans. SBA products, often viewed as "products of last resort" by banks, should be considered "products of choice," with unparalleled features and benefits truly designed to meet the needs of small business customers. Small Loan Advantage (SLA) and Community Advantage are two loan products that exemplify the SBA's efforts to make the program more accessible.

The goal of the SBA's Small Business Investment Company (SBIC) program is to jump-start small business. SBICs are equity funds that provide financing to small business. Through the SBIC program, the SBA licenses qualified teams with successful track records in lending in their areas. A bank will bring in an SBIC to provide junior capital to bridge the gap between small business equity and the bank as a senior lender. The SBIC provides an avenue for banks to make investments with good returns while developing a relationship with the client, getting CRA credit, and spurring business growth in the community.

Commerce Bank is very active in small business lending, especially among minority communities and family businesses that need high-touch services. As President and CEO, Mr. Urrabazo recommends that banks study the opportunities and limitations in local infrastructure, competition, and resources. They should then decide whether small business lending will be a part of the overall lending department or will function as a specialized department of its own, possibly incorporating SBA programs. Banks should focus on the industries that exist and flourish in their communities and create strategies to anticipate and address the needs of those niche markets. Mr. Urrabazo urges banks to structure loans creatively to be able make high-touch specialty loans, because every satisfied small business borrower has the potential to grow into a loyal, long-term customer.

Wells Fargo Bank enjoys the distinction of being the top SBA lender in the country, due in large part to the attitude that SBA means "Should Be Approved."

Here's how to use SBA to your advantage:

- Find a way to say "yes" using all available products and options
- Convince your own credit team to believe in the SBA product
- Research and offer all commercial and state-guaranteed complimentary products
- Understand the standard operating procedures
- Market as a "full-service bank" that allows clients to choose their own path

– David Rader

Innovation Spotlight: New Ideas that Worked

Steve Reider
President, Bancography, Moderator

David Reiling
CEO, Sunrise Banks, MN

Deborah Wright
Chairman and CEO,
Carver Federal Savings Bank, NY

Daniel Skaff
President and COO,
One PacificCoast Bank, CA

In a challenging economic environment, banks need to identify and incorporate new channels for delivering financial products and services. This evolution in the traditional bank business model is critical in order to meet the changes in customer demographics and preferences. Technology can help banks by enhancing branch efficiency, increasing outreach, and reducing costs. Four industry leaders presented successful innovations in banking.

ClearConnect is a workplace-based small loan product developed by Sunrise Community Banks to disrupt the payday lending business. ClearConnect could help employees manage unexpected medical bills, home emergencies, tax payments, or other expenses. Employers can offer this as a voluntary benefit, empowering employees to access fast, affordable, confidential small-dollar loans backed by their own wages. The fully-automated online system integrates with payroll for a simple solution to meet short-term financial needs. The program, now in its test phase, has been made available to Sunrise employees and is under review for regulatory compliance. Payday lending is a huge industry in low-income communities, giving ClearConnect the potential to grow to a significant scale.

Carver Community Cash is a suite of services that competes with check cashers by allowing consumers to cash checks, pay bills, wire money, purchase prepaid cards, and more, whether or not they hold an account at the bank. Carver Federal Savings Bank recognized the huge opportunity for outreach to the many underbanked residents in local communities, where there aren't enough bank branches to meet demand. Carver is going beyond the boundaries of their branches with self-service check-cashing ATMs in public housing developments and supermarkets, and with site visits to major employers to cash checks on payday. In just six months, the bank has seen a 40% conversion rate to conventional bank accounts.

> *"Changing behavior is hard, and that leads to the conundrum: Do we stay out of [payday lending] all together? Or do we wade in and offer a better service?"*
> –Deborah Wright

One PacificCoast Bank has collaborated with investors to create an impact equity fund. The investment philosophy grew out of the triple bottom-line mission of the bank, combining economic sustainability with environmental resiliency and social impact. The network of investors provide equity and subordinated debt to support up-and-coming technology ventures that will reach the underserved.

Bancography, a branch planning consulting company, recommended two innovations in branch banking:

- Image-enabled ATMs allow customers to deposit checks at any time of day, an essential service for low-wage workers with inflexible schedules.
- The Teller Cash Recycler (TCR), a machine that automates cash handling at the teller line, allows staff to circulate and interact with customers.

The company cautioned small community banks to steer away from two other new approaches:

- Mobile banking requires large up-front development costs and as yet has not been successfully monetized.
- Video remote tellers connect customers in branches with tellers in a centralized call center via video stream. While this innovation offers tremendous efficiency, it diminishes the personal connection with customers. The value proposition of CDFI Banks is their strong ties to the local community, and nothing symbolizes this like personal interaction and on-the-ground presence.

New Opportunities for Innovative Banks

Robert Marjan
COO, Urban Partnership Bank, IL

William Turner
Senior Vice President,
New Market Tax Credits
Wells Fargo Bank

Steve Kramer
Senior Vice President,
US Bancorp Community Development Corp, Moderator

Kevin Goldsmith
Vice President and New Market Tax Credit Manager, JPMorgan Chase

Saurabh Narain
Chief Executive, NCIF

Programs like New Markets Tax Credits and the CDFI Bond Guarantee Program can provide new ways of generating funding and capital for mission-oriented banks. However, they do have significant complexities in implementation. Expert panelists provided practical advice around each program's potential value and ways that NCIF can help simplify the process for participating banks.

The New Markets Tax Credits (NMTC) Program, administered by the CDFI Fund, uses tax credits to attract private investment capital and spur economic growth in distressed communities. Major investors include large banks like JPMorgan Chase, Wells Fargo, US Bank, and PNC. Together they make billions of dollars available for use in high-impact New Markets projects, presenting a powerful opportunity for CDFI Banks to partner with major banks, raise funds, and expand their work.

NCIF's 3-Way Partnership Model brings together a large investor and a mission-oriented bank to fund a high-impact New Markets development. Urban Partnership Bank is a good example of a CDFI Bank that benefitted from participation in the NMTC Program by booking a loan to fund an important local social service agency. New Markets deals are complex by nature, involving many different parties and funding sources. However, NCIF partnered with Urban Partnership Bank in addressing the complexities associated with the program. As a direct lender to the project, the bank was able to partner with other organizations and participate in the NMTC Program under terms familiar to the bank. The positive experience with this deal led Urban Partnership to apply to become a CDE for future New Markets rounds.

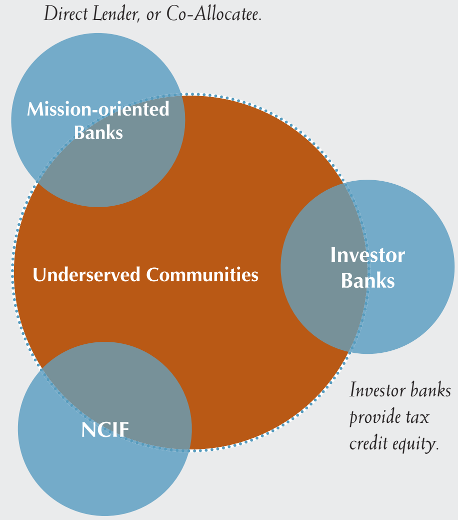
In order to maximize and quantify tangible impacts to the projects and in surrounding communities, JPMorgan Chase, Wells Fargo, and NCIF have incorporated a Community Benefits Agreement (CBA) to many New Markets transactions to define measurable, reasonable goals around community outcomes. These include LEED certification, use of local contractors, the creation of permanent full-time jobs, and educational programming for community members. CBAs are reviewed and enforced in the same manner as other loan covenants. Borrower noncompliance may constitute an event of default. Where goals are met or exceeded, NCIF may offer a financial benefit to the transaction partner under its "pay for performance" program.

Wells Fargo and NCIF are developing a Small Business Loan Fund that utilizes NMTC allocations to increase the capital available to minority businesses in low-income communities. This program will enable CDFI Banks to make smaller loans by standardizing loan documents and structures, capitalizing on banks' expertise in local lending without requiring them to become experts in NMTC transactions as well.

The CDFI Bond Guarantee Program is a CDFI Fund program designed to promote community and economic development by guaranteeing bonds issued by CDFIs that provide long-term patient capital into low- and moderate-income communities. The program could be an excellent source of low-cost funding, but the structure is very complex, especially as it relates to banks. NCIF has applied to be a Qualified Issuer and is exploring several ways that the benefits of this program can accrue to its banking partners.

NCIF's 3-Way Partnership Model

Mission-oriented banks participate as a Tax Credit Equity Investor, Leveraged or Direct Lender, or Co-Allocatee.



Investor banks provide tax credit equity.

NCIF utilizes NMTC allocations to maximize impact in highly distressed communities.

Positioning Banks for the New Housing Market

Mark Willis
Resident Research Fellow,
the Furman Center, NYU
NCIF Trustee, Speaker and Moderator

John Stocchetti
Executive Vice President,
Federal Home Loan Bank of Chicago

Jack Markowski
President and CEO,
Community Investment Corporation

The residential mortgage market has been through extreme ups and downs, but may now offer advantages to CDFI Banks and to the mission-oriented banking industry in general. After the recession, banks compete with fewer mortgage brokers, and they may rely on stability in prices due to new regulations around the pricing of risk. In addition, a substantial increase in the guarantee fee that Fannie Mae and Freddie Mac charge may drive borrowers to community banks that do not sell off their loans. Although there is discussion of phasing out Fannie and Freddie, they will probably remain structurally unchanged, although underwriting requirements may get tougher. Finally, CDFI Banks are exempt from the Ability-to-Repay and Qualified Mortgage Rule under new regulations, giving them another competitive advantage in their markets. Given these changes, this may be an opportune time for CDFI Banks to rebuild the single family mortgage business, allowing this to once again become a core business line for community banks.

Panelists discussed two opportunities for banks to participate in the housing market:

The **Federal Home Loan Bank (FHLB) System** was created by Congress in 1932 to provide liquidity in the housing market. The system includes twelve FHLBs that are privately owned enterprises, owned by stock-holding member institutions in each of their districts. They offer several programs to help member banks in their communities. Traditionally, FHLBs provide advances to their member institutions, using single family mortgages, securities, and other assets as collateral. This gives banks the liquidity they need and facilitates the movement of funds from Wall Street to Main Street. Under the Mortgage Partnership Finance (MFP) Program, member banks partner with the FHLB to sell their loans on the secondary market. The program helps smaller institutions compete by providing back office support and wholesale funding advantages. The Community Investment Program (CIP) offers below-market-rate loans to members for long-term financing for housing and economic development. The FHLB sets aside a portion of its net income to fund targeted programs benefitting low- and moderate-income communities.

Consortium Lending allows two or more banks to pool their resources and expertise to finance large projects. Community Investment Corporation (CIC), an example of a consortium lender, is a nonprofit CDFI loan fund formed by local bankers to address the needs of an underserved market. CIC is a multifamily rehab lender that uses pooled funds from forty local banks. CIC has been successful in low-income areas that mainstream banks have fled by specializing in multifamily lending and bringing hands-on personal attention from expert loan officers and construction oversight managers. There are over twenty consortium lenders in the US, each specializing to meet the particular needs of their market areas, often through low-income housing developments. This type of lending allows banks to distribute risk, and allows smaller banks to be a part of financing a larger project that can have a great, targeted impact in their underserved communities.

Technology Spotlight

Ian Lampl
Co-Founder and CEO, LoanStreet

John Hamilton
President, City First Enterprises

Patrice Peyret
CEO and Co-Founder, Banking Up

Joseph Mroczek
Manager, Operations and Control, NCIF, Moderator

Two opportunities harness the power of technology to improve access to financial services and position community banks to succeed:

LoanStreet is an innovative solution to facilitate loan syndication, creating an online marketplace to bring together originators and investors. Traditional syndication involves expensive due diligence, negotiations, and documentation and can be too costly for small loans. LoanStreet provides a full suite of standardized management tools to make syndication efficient for any size loan. The online marketplace allows originators to publish loans with searchable summary terms, including CRA qualification and other metrics. Co-lenders can share documents, vote on amendments, and automate payments, making it simple to buy into and manage a loan.

Banking Up is an alternative distribution strategy that transforms individual cell phones into mobile branches to service prepaid accounts. Although low-income clients may be underbanked, the majority have mobile phones that can be used access the Banking Up platform to deposit cash, receive direct deposits, pay rent, and build savings. Customers purchase Moneypak prepaid cards from CVS and redeem by phone to add money to their personal account. Banks can use this product to attract underbanked customers in their target market and transition them to other bank products and services.

An innovative strategy for community banks as presented by John Hamilton:

Crowdfunding, or raising small amounts of capital online from a large number of individuals, could become a bridge between mission-oriented banks, their communities, and impact investors. Crowdfunding can be a powerful fundraising tool: in 2013 platforms raised a total of $5.1 billion for over 1 million campaigns. Activity has grown due to technological advances as well as some important legal changes. The JOBS Act of 2012 allows companies to offer and sell securities through crowdfunding and gives every day Americans the ability to invest through crowdfunding, when meeting criteria specified by the SEC. The SEC released proposed crowdfunding regulations and established rules for online funding portals that act as brokers between "crowd" investors and borrowers.

Crowdfunding may be coupled with institutional financing to address dramatic capital shortfalls among CDFI Banks and in low- and moderate-income communities. CDFIs may be able to leverage this technology to capitalize on the growing popularity of impact investing and tap into individual donors, a significant source of funds not previously accessible to community banks. These individual donors, in turn, can benefit from the expertise and due diligence of sophisticated CDFI investors that funnel their contributions to the most suitable businesses and projects. Crowdfunding could become an opportunity for community members themselves to responsibly facilitate community development and create jobs where they're most needed.

Responding to Regulatory Changes

Art Lindo
Senior Associate Director, Banking Supervision and Regulation, Federal Reserve Board

William Haas
Deputy Comptroller for Midsize Bank Supervision, OCC

Robert Mooney
National Director, Minority and Community Development Banking, FDIC

Charles Van Loan
Director, Independent Bank Corporation
NCIF Trustee, Moderator

Representatives from government agencies offered advice on navigating regulatory changes and commented on their agencies' commitment to mission-oriented banks. Priorities and concerns for 2014 include operational and strategy risk, changes in capital requirements, and cyber-security.

As banks explore new lines of business or infrastructure platforms, they need to manage the associated risks and should be prepared to respond to regulatory concerns about how these new lines fit with the bank's risk management strategy. New products require thorough due diligence, especially when third party vendors are involved.

Changes in capital ratio requirements present a challenge as they require banks to hold a larger capital base than they have in the past. Banks will need to prepare themselves for incremental increases in capital ratios.

Regulators are making banks aware of the increasing risk of cyber-attacks. These attacks used to target only the largest institutions, but have now reached mid-sized banks and could potentially strike small banks next. A common pattern is that a DDoS attack (a distributed denial-of-service attack that makes a network unavailable to users) is employed as a distraction to make way for a payment or wire fraud. Small banks should become informed and prepared to handle such attacks.

The FDIC offers a number of resources to community banks, including resources to guide due diligence around innovative new products. The FDIC's YouTube channel features a well-received series of six videos with technical assistance on issues such as interest rate risk, fair lending risk, troubled debt restructuring, and insurance coverage. The agency also provides banks with technical training meant to help build their assets and diversify their income in a safe and effective manner. Additional FDIC priorities for 2014 include increasing CAMEL ratings and encouraging the participation of Minority Banks in the New Markets Tax Credit Program.

The OCC is prioritizing operational risk, as banks search for sustainable ways to generate profits through new lines of business. The agency urges particular caution when partnering with third party vendors.

The Federal Reserve System plans to reach out for one-on-one dialogues with CDFI Banks to discuss practical strategies for achieving minimum capital ratio standards required by new regulations. An estimation tool, available online, can help banks model their plans. The Fed also offers resources such as transition provision guidelines, advice regarding partnerships with other institutions, and application insurance. The Federal Reserve System is also taking the initiative on cyber-security, working with the Secret Service to screen tech providers and protect the environment where transactions take place. Community development banks are receiving special care and focus.

Tips from the OCC

When partnering with third party vendors, banks should:

1. Understand the risk before launching the product.
2. Build a risk management infrastructure pre-launch.
3. Ensure that product marketing is clear and accurate on terms, fees, and conditions.
4. Guarantee that customers reliably receive the service they pay for.
5. Be certain that customers are not hampered in their attempts to cancel a product.
6. Ensure that the vendor's customer service is consistent with the bank's standards.
7. Enact sufficient monitoring controls and oversight.

MEASURING AND COMMUNICATING SOCIAL PERFORMANCE OUTPUTS AND OUTCOMES

Facilitators:

Joe Schmidt
Vice President, Research and Investments, NCIF, Moderator

Emily Sipfle
Senior Analyst, Research and Investments, NCIF

Blondel Pinnock
President, Carver CDC

Salvador Menjivar
Executive Director, OnePacific Coast Foundation

Sarah Gelfand
Director of IRIS and ImpactBase, the GIIN

This roundtable allowed participants from mission-oriented banks, investors, regulators, and others to discuss the increasing importance of Social Performance Measurement within the mission-oriented banking industry. The presenters focused on cooperation within the industry to better communicate impact and garner increased support.

The discussion focused on the following objectives:

- Define standardized and transparent impact metrics to meet the needs and expectations of impact investors. NCIF's Social Performance Metrics are aligned with IRIS measures, bringing the community development banking industry into the overall impact investing sector.
- Streamline and simplify the reporting process to ease the burden on individual banks, through standardized definitions and perhaps a shared reporting infrastructure.
- Increase participation on the part of mission-oriented institutions. Ms. Pinnock discussed Carver's efforts to implement a data tracking system that will inform its internal reporting to the Board and competitive applications for funding resources.
- Identify new impact datapoints and updates to NCIF's Development Impact Dashboard, a flexible and expansive impact reporting tool that allows banks to tell their individual impact story.
- Form a working group to discuss practical steps to improving impact measurement for both individual banks and for the industry as a whole with streamlined datapoints and reporting processes.

Four ways to get involved with NCIF's Social Performance Metrics:

1. **Report your impact:** NCIF collects data from a number of CDFI and MDI Banks, creating benchmarks for the industry and detailed individual Dashboards for each contributing bank.
2. **Contribute** to the development of metrics: NCIF seeks input on current metrics and future iterations to ensure alignment with the needs of banking partners, investors, regulators, and other stakeholders in the industry.
3. **Subscribe to BankImpact.org:** Search and benchmark banks using this online resource for financial and social impact data.

BankIMPACT an NCIF resource | Catalyzing Investments in Underserved Communities

4. **Invest** in high-performing banks: Mainstream and socially responsible investors should commit to place deposits and equity capital into institutions rated highly by the NCIF's Social Performance Metrics.

Making the New Markets Tax Credit Program Work for your Institution

Facilitators:

Julius Kimbrough
Vice President, Liberty Bank & Trust

Nancy Montoya
Regional Community Development Manager, Federal Reserve Bank of Atlanta

Robert Ibanez
NMTC Program Manager, CDFI Fund

Vickie Battle
Vice President, Investments and Lending, NCIF

Marysol McGee
Board of Governors of the Federal Reserve System

The Board of Governors of the Federal Reserve, and the Federal Reserve Banks of Atlanta, Boston, Chicago, and Richmond collaborated with NCIF to provide a roundtable to help banks increase their community development activity by engaging with the New Markets Tax Credit program. Presenters raised awareness of the different ways that smaller banks can engage with the program outside of securing their own allocation: as a leveraged lender to the investment fund; as a lender to a sponsor making a leveraged loan; as a direct lender to the Qualified Business; by participating in a loan made by another bank; or by building a relationship with the involved parties through other banking services.

Highlights of this workshop included:

- An overview of the history and rationale for the New Markets Tax Credit Program as well as its impact in low- and moderate-income areas.
- Potential benefits to participating banks such as earning returns on investments or loans, receiving CRA credit, providing services to community customers, and attracting investment dollars to their communities.
- Tips for identifying potential New Markets clients or projects and sourcing allocations to finance high-impact projects.
- Presentation of actual New Markets deals involving CDFI Banks, including their related transaction structures and benefits to participants.
- NCIF's announcement of a pilot small business loan fund that uses New Markets allocation to promote small business lending in minority and low- and moderate-income communities. The platform will allow NCIF's partner banks to offer attractive $1M to $3M loans to borrowers meeting eligibility requirements.

What is the role of the CDFI Bank in NCIF's 3-Way Partnership Program?

1. Leveraged Lender
2. Direct Lender
3. Co-Allocatee

The Power of Mission-Oriented Financial Institutions Illustration

We invited an artist to our 2013 Annual Development Banking Conference to create real-time artwork using words from leaders of NCIF Network Banks. The final illustration represents the power of mission-oriented financial institutions to transform underserved communities and the value of building and strengthening this network.

THANK YOU

NCIF would like to thank all of the bank leaders, investors, government representatives, and stakeholders in the community development banking industry who attended our Conference and who helped make this event possible. In particular, we would like to acknowledge our lead sponsor, the Federal Reserve Bank of Chicago, and our wonderful keynote speakers.

We look forward to seeing you this year!

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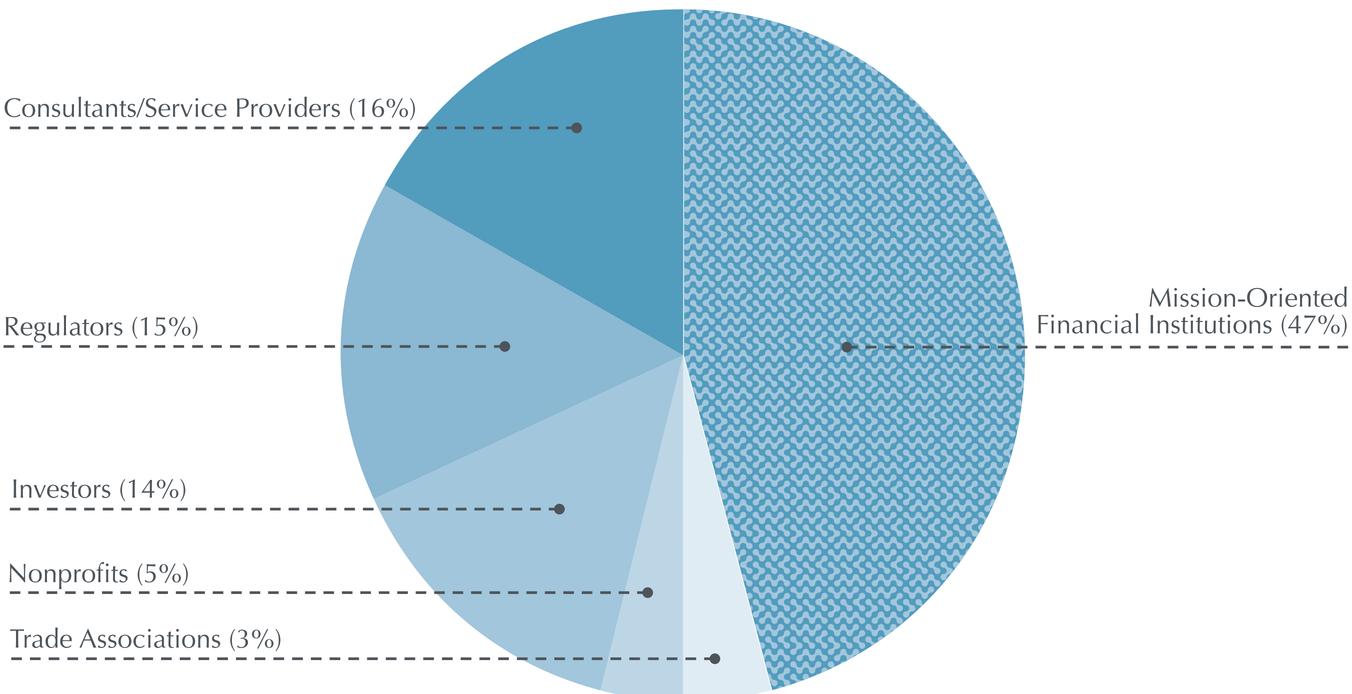

BankIMPACT
an NCIF resource
Catalyzing Investments in Underserved Communities

BankImpact.org is an online resource offering financial data and Social Performance Metrics on all US banks. NCIF created this dynamic tool in response to feedback from industry leaders and investors who desire a way to search, evaluate, and benchmark high-performing mission-oriented banks. BankImpact allows a wide cross-section of stakeholders – investors, financial advisors, regulators, bank CEOs, analysts, and others – to:

- Search and compare mission-oriented banks
- Benchmark the performance of a bank relative to standard or customized peer groups
- Create and analyze custom peer groups
- View trends in the CDFI Banking industry